

Chesebrough-Pond's Inc.

Annual Report 1975

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Reaching each generation with an ever broader range of quality goods at reasonable prices is a Chesebrough-Pond's tradition. Chesebrough-Pond's is a diversified manufacturer and marketer of consumer products, including packaged foods, children's clothing, cosmetics, proprietaries, toiletries, fragrances and health care products. Some of the company's best known brand names are: Ragú, Adolph's, Health-tex, Vaseline, Pond's, Intensive Care, Cutex, Wind Song, Cachet, Aviance, Prince Matchabelli, Pertussin, Q-tips and Aziza.

Financial Highlights

	1975	1974*	% Increase
Net Sales	\$674,583,000	\$561,257,000	20.2
Net Income	47,922,000	43,171,000	11.0
Earnings Per Share	3.01	2.72	10.7
Dividends Per Share	1.36	1.24	9.7
Shareholders' Equity	\$282,822,000	\$250,759,000	12.8
Average Shares Outstanding During Year	15,929,000	15,852,000	.5
Number of Shareholders at Year End	13,538	13,993	(3.3)

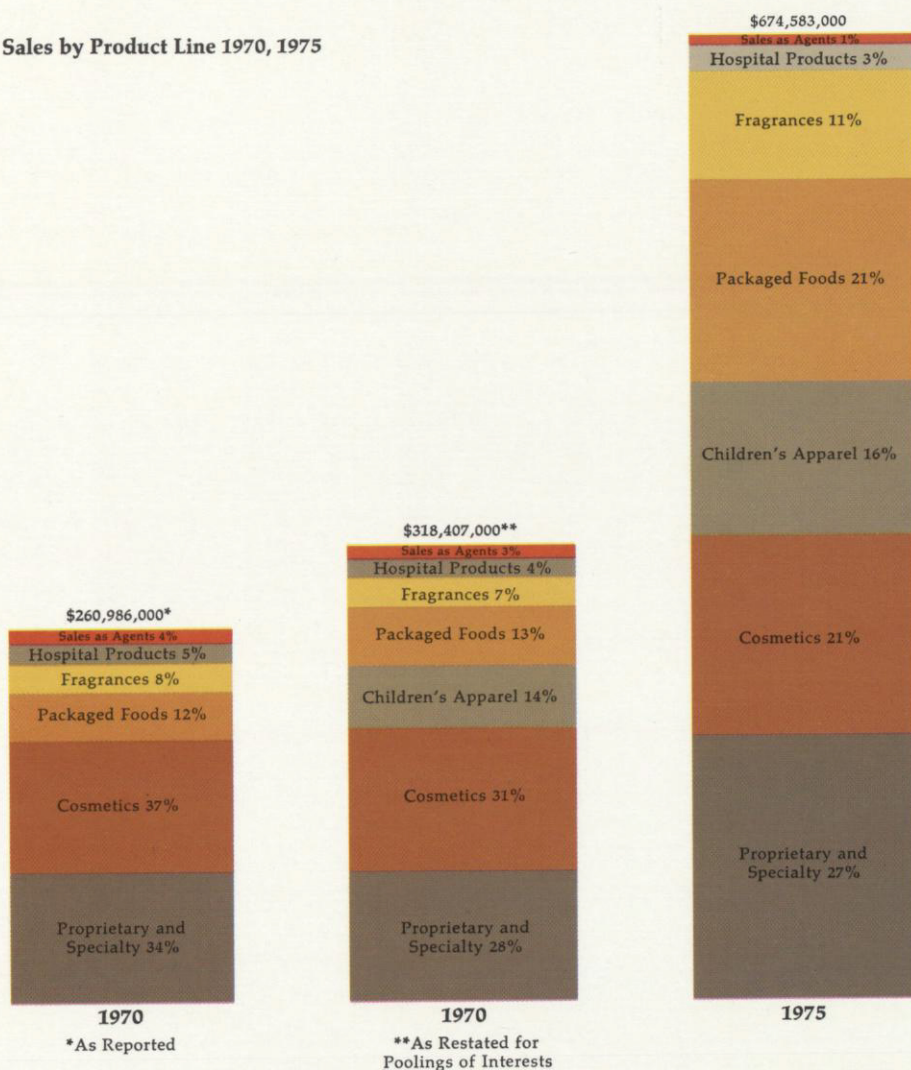
*Restated to reflect change in accounting method for foreign currency translation.

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The combination of new product development and corporate acquisitions which took Chesebrough-Pond's into such new fields as children's apparel and packaged foods continues to change the business profile of the company in the 1970's.

Sales by Product Line 1970, 1975



To Our Shareholders:

While business conditions during the year 1975 were probably more difficult than at any time since the depression years of the 1930's, Chesebrough-Pond's continued to make steady progress with sales up twenty per cent and net income up eleven per cent. These results were accomplished in spite of what in effect was a foreign currency exchange loss for the year of \$5.3 million.

We believe 1975 was an outstanding year for our company, with results historically consistent with our growth pattern. As we look ahead in the short term of 1976, we expect to benefit from the general economic recovery now underway in the United States and to improve our strong financial position during this period.

As a result of our diversification program over the past several years, and as we continue to pursue and develop our long-range planning, the management of our assets will become increasingly important. While we expect to surpass the billion-dollar sales level in the next few years, the real value of our growth must be measured in terms of the quality of the earnings increases during this period, and we fully expect to deliver satisfactory results in this respect.

The first half of this decade has seen a consistent broadening of the company's horizons—as we have responded worldwide to more consumers and more of their needs—via new product development, key acquisitions, line extensions and a pattern of expansion through broader distribution, both domestically and in foreign markets.

In more than doubling the company's size since 1970, we are now serving, and thereby touching the lives of, many millions of consumers worldwide who are being reached with increasing frequency as product lines expand and as our advertising, which helps motivate consumers, carries our brand names into millions of homes.

Chesebrough-Pond's has become a part of many people's life pattern and we are certain to become an even more integral part in the years ahead through continued dedication to our basic commitment to serve the ever-expanding needs of our primary consumer—the family unit.

The validity of this approach, I believe, can be demonstrated by telling you about the contribution to our growth of two important new products introduced in the United States in 1975.

Since our 1969 acquisition of the business of the Ragú Packing Co., Inc., the Ragú brand name has become increasingly important to Chesebrough-Pond's. Ragú Spaghetti Sauce, which then was only in regional distribution, now enjoys well over a 60 per cent national market share in the United States. With the demand

for Italian food products continuing to expand, in 1974 we market-tested a new product called Ragú Italian Cooking Sauce, and this was launched nationally in early 1975.

By year end Ragú Italian Cooking Sauce was the third largest seller in the sauce category, with Ragú Spaghetti Sauce commanding a larger market share in 1975 than before the new product introduction.

The second major introductory success of the year was the Prince Matchabelli Division's *Aviance* line of fragrance products. *Aviance* was launched in the Fall in a highly competitive setting as many other major fragrance makers also brought out new products.

Heavy television advertising combined with custom package design, extensive store promotion and sophisticated marketing techniques to establish *Aviance* quickly. Sales goals were exceeded by considerable margins and industry sources have acclaimed *Aviance* as the biggest new product success in the fragrance field in 1975.

Clearly we now have another major fragrance in the Prince Matchabelli Division and, it should be noted, the success of *Aviance* was not achieved at the expense of our established *Wind Song* and *Cachet* lines. Both showed sales gains for the year and held their ranking among the industry's top ten.

In continuing this pattern of progress, other new products are in various stages of development and testing in all divisions of the company. At the same time, we remain alert to acquisition opportunities, considering companies whose products are compatible with our marketing and management skills and whose businesses offer comparable profit margins.

Building Chesebrough-Pond's to its present strength has called for sizable capital commitments as outlined in past reports. Our capital expenditures reached \$30 million in 1974 and \$28 million in 1975. We expect to spend \$20 million in 1976. The focus has been on facilities expansion to handle products for those areas which we believe hold the greatest potential for sales growth and quality of earnings growth over the next several years.

In the past two years, for example, we completed new Health-tex Division plants in Gadsden, Alabama, Centreville, Alabama, Cumberland, Rhode Island, and Cabo Rojo, Puerto Rico. In May 1975, we completed a \$3.1 million distribution facility in Milan, Italy. In June, a \$5.5 million spaghetti sauce manufacturing plant at Owensboro, Kentucky, started production of *Ragú* products. In August a new 90,000-square-foot warehouse was completed in Rochester, New York in the Packaged Foods Division and work was well under way on an \$8 million plant in Huntsville, Alabama, for the

Prince Matchabelli Division which will be in production in the first half of 1976.

To improve our short-term financial position, we completed arrangements in February, 1976 for a three-year, \$40 million loan at favorable terms from the Metropolitan Life Insurance Company. These funds are being used both to eliminate our revolving credit and to reduce our short-term debt as reflected in the balance sheet in this Annual Report. With the complexities of the money markets today, we believe that the flexibility afforded by this type of borrowing is a desirable benefit and one which is ideally suited to our long-term plan requirements.

In our interim reports to shareholders during 1975, we advised you of sizable foreign exchange losses stemming from devaluations in several overseas markets, principally Argentina, the United Kingdom and South Africa, but affecting 16 markets in all. The accounting method prescribed by the Financial Accounting Standards Board's recently issued Statement No. 8 calls for the translation of non-domestic inventories to dollars at rates in effect at the time of acquisition rather than at current exchange rates. Prior to the issuance of the new Statement, the company's practice in handling

devaluations had been to write down immediately the value of its foreign inventories. This was in accordance with generally accepted accounting principles. Such write-downs were taken as an expense in the period in which the devaluation occurred and shown separately in the statement of income. In accordance with Statement No. 8, inventories in foreign currencies now are translated into U.S. dollars at exchange rates prevailing when they were acquired, which results in a deferral of the income impact of a foreign currency devaluation. The length of the deferral period depends upon the inventory turnover rate in the country where the devaluation has taken place. In addition, the income adjustment flows through cost of goods and affects operating profit rather than being classified as a loss on exchange.

In following this change for the year 1975, the effect can be seen on the "Consolidated Statement of Income" on page 21 of this report. Although earlier in this letter we pointed out that currency translation losses had a \$5.3 million adverse impact on net income, it should be noted that under the heading "Gain or (loss) on foreign exchange" the loss appears as \$1,359,000. The difference of \$3,973,000 which was related to foreign inventories has been charged to "Cost of products sold."

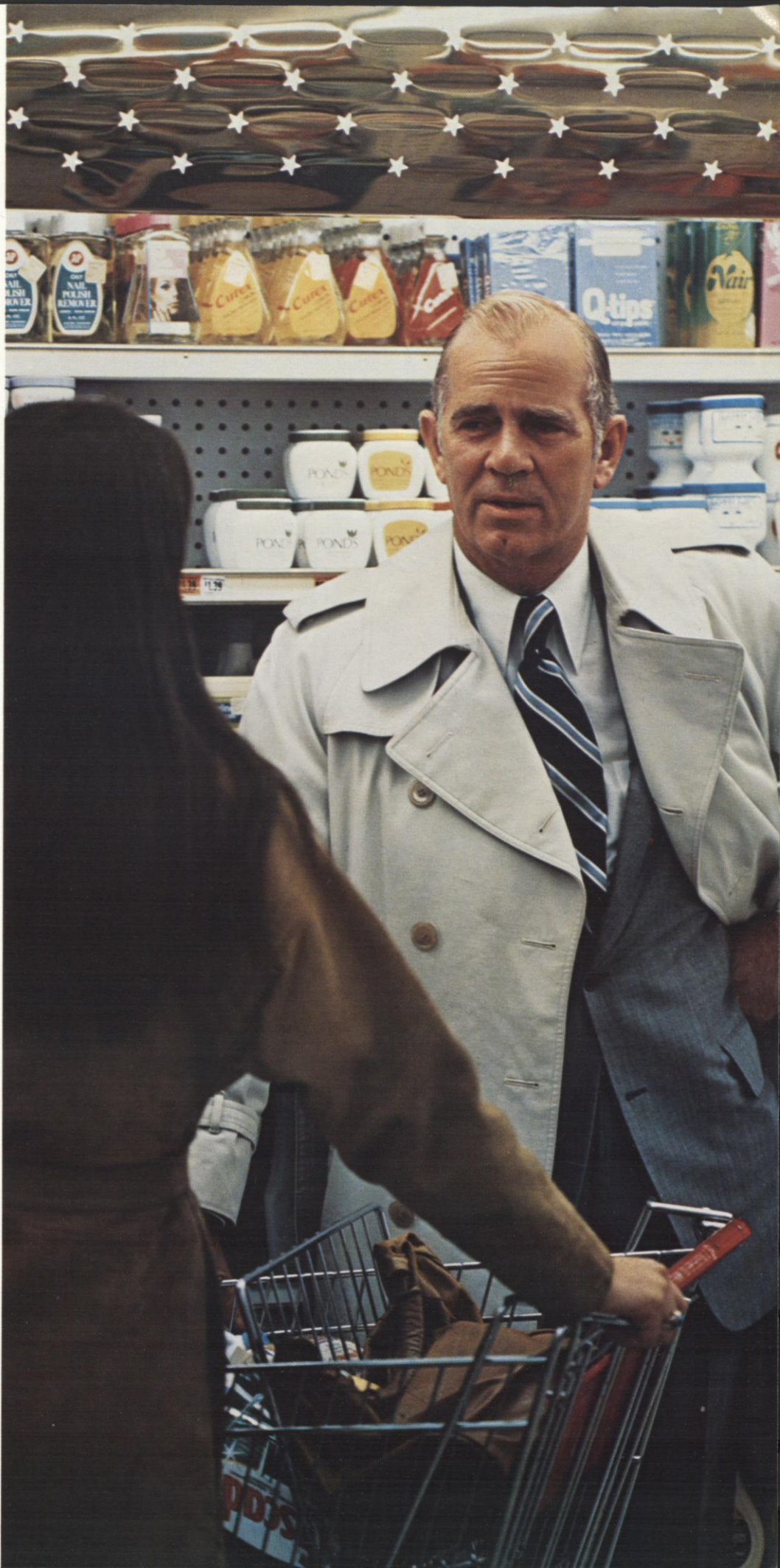
Our International Division showed a sales increase of 13.1 per cent in spite of currency devaluations affecting both

sales and profits. While the problems of recession and inflation which led to these devaluations have hardly disappeared worldwide, we believe that we will be less vulnerable to these pressures in 1976. As you might expect, we will continue to limit our financial exposure in those markets where political and economic uncertainty is particularly acute.

In 1975 all divisions achieved record sales and all except International, with its foreign currency problems, posted increased earnings as the company's volume grew to \$674,583,000, up 20.2 per cent from \$561,257,000 a year ago. Earnings were up 11.0 per cent to \$47,922,000, or \$3.01 per share, by comparison with a restated \$43,171,000, or \$2.72 per share in 1974. While income from operations increased a healthy 16.4 per cent, this was reduced from a 19.7 per cent gain as a result of following the accounting treatment prescribed by the Financial Accounting Standards Board Statement.

Packaged Foods Division sales showed the greatest growth, advancing by 39 per cent. The new Owensboro plant is already producing Plain, Meat, Mushroom and Marinara *Ragù* Spaghetti Sauce in pint and quart sizes for shipment to 22 states, and we anticipate that additional items will be produced there in 1976.

Ralph E. Ward, President, talks to a consumer in a supermarket.



Heavy advertising and promotional programs contributed to a 26.6 per cent advance in sales of *Adolph's* Meat Tenderizer and testing continues of new products under the *Adolph's* label.

The addition of the new plants to serve our Health-tex operation contributed significantly in several areas. With capacities increased substantially, we were able to accommodate many new accounts, including the military services, and make a stronger penetration of the infants wear market.

Sales increased 30.0 per cent and the profit margin of the Division remained well in excess of apparel industry averages. We have increased production capabilities by over 50 per cent in just two years, which puts us in a much better competitive position from a marketing point of view as well as enabling us to handle further facilities expansion on a longer lead time basis.

It is gratifying to be able to report continuing progress in the two divisions which have been experiencing areas of softness more in line with the general economic climate in the United States during the year—the Health and Beauty Products Division and the Hospital Products Division.

Early in 1975 we achieved a major consolidation and refocus of the Health and Beauty Products Division's sales force. This approach has allowed our key sales personnel to work closely with the Division's major accounts on a more frequent basis while at the same time ensuring proper coverage of all of the Division's accounts nationwide for all of its advertised brands. As a part of this program, independent brokers are being utilized to provide coverage and support for the majority of unadvertised brands. While the resulting efficiencies contributed to an 8.4 per cent Divisional sales gain, more significantly, the Division's profitability improved at more than double that rate while advertising and merchandising support also increased.

Greater operating efficiency was invaluable in the Hospital Products Division's development as well. In 1975 we continued to emphasize products which provide satisfactory profit margins, added new lines which offered greater potential and consolidated facilities to permit maximum utilization. The Division's sales advanced by 8.8 per cent and, like the Health and Beauty Products Division, its profit margins moved ahead strongly.

Earlier I mentioned the contribution to the Prince Matchabelli Division of the new *Aviance* fragrance line of products. This Division, which had been growing at a modest rate until 1970 when the *Cachet* line was introduced, has had dynamic

growth in sales and earnings since that time. It achieved a 27.6 per cent sales increase in 1975 and strong profit growth as well.

Supporting the improved fragrance volume, the Division made excellent gains with the *Aziza* eye makeup line whose sales have more than doubled in the past two years.

We believe the reasons, beyond the improved quality of the product line, have been our ability to respond to market needs in the selection of new products and new shades and to provide improved distribution and highly effective advertising support.

By the time you read this report, the Prince Matchabelli Division's new 240,000-square-foot facility at Huntsville will be in the start-up stages of production. Ultimately all fragrance production will be centered here, enabling us to utilize the full facilities of our Clinton, Connecticut plant to meet the increasing needs of our Health and Beauty Products Division.

While the primary focus of this letter must be on those activities which reflect most directly on our current activities and programs for growth, I should like to comment briefly on Chesebrough-Pond's role in society.

Your management's position on corporate ethics is that we are responsible citizens first, and everything else follows. It is our policy and intent to understand and obey the law in pursuing the business activities of our company. At Chesebrough-Pond's we do have a written code of business ethics to help guide employees, especially abroad where U.S. laws and customs are not the only criteria. In doing business in other countries our policy clearly requires that we abide by the local legal requirements.

In terms of human betterment, our vision of the corporation's social responsibility remains clearcut: the principal path for a corporation in contributing to society's improvement is through its ability to function successfully as a vibrant, profitable business. In this way we serve shareholders, employees and consumers.

At the same time we are active in programs designed to achieve social improvement. We are constantly increasing our support of minority organizations. We maintain programs to encourage appreciation of the arts by the young and we support an increasing number of scholarship programs.

In the process of growing, we continue to provide employment for talented people of all races and creeds in our business. While the total number of employees increased from 15,300 in 1974 to 15,434 in 1975, the percentage of women in management positions increased during the year from 16.5 per cent in 1974 to 20.6

per cent in 1975. The proportion of minority group employees in the United States remained stable at 9.1 per cent.

Several amendments to our Retirement Plan were approved January 1, 1976, with the most significant provision calling for prior credit to employees for service with companies acquired by Chesebrough-Pond's.

Since my last report there has been one change in the Board of Directors. On May 1, 1975, Frank J. McGroarty, former vice president and secretary, retired from the Board after 27 years as a director and nearly 49 years of valued counsel and service to the company.

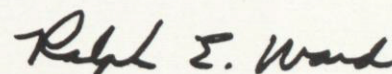
In February 1976, the Board of Directors voted an increase in the company's quarterly dividend from 34 cents to 38 cents per common share, bringing the expected annual yield to \$1.52 per share. The year 1976 will mark the 17th consecutive one in which the dividend payments will have been increased and the 94th year of unbroken dividend payments.

To help broaden our shareholder base, the Board also voted to recommend to

shareholders at the Annual Meeting on May 6, 1976, a split of the company's common stock on a two-for-one basis, and to request the shareholders to approve an increase in the authorized common shares of the company to 50,000,000, on an after-split basis, from the current authorized 20,000,000 common shares.

Our 20th consecutive year of record sales and earnings could not have been achieved without a united effort by all of the 15,434 men and women who compose the worldwide family of Chesebrough-Pond's. Conditions made 1975 a year for working harder and for continuing to find satisfaction in proving that teamwork is still a key to success. On behalf of the officers and directors, I wish to express appreciation for the continuing efforts of all employees and for the support of our shareholders.

Throughout this letter I have stressed those factors in our corporate activities which continue to strengthen our base for sustained growth in the years ahead. In the shorter term, we believe our prospects for 1976 are good and, as economic conditions continue to improve, we fully expect this will be our 21st consecutive year of record sales and earnings.



Ralph E. Ward, President

March 1976

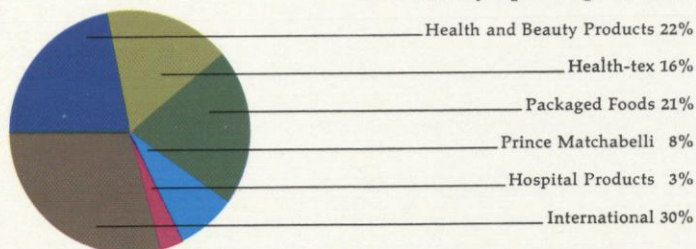
Net Sales by Operating Divisions

(in thousands of dollars)

	Average Growth	1975	1974	1973	1972	1971	1970
Health & Beauty Products*	11.3%	\$146,071 +8.4%	\$134,755 +7.7%	\$125,129 -3.6%	\$129,802 +22.4%	\$106,043 +21.8%	\$ 87,067
Packaged Foods	28.1%	140,007 +39.0%	100,715 +25.8%	80,029 +30.3%	61,413 +24.4%	49,354 +21.1%	40,748
Prince Matchabelli	22.1%	57,002 +27.6%	44,689 +32.3%	33,789 +19.4%	28,300 +11.1%	25,470 +19.9%	21,234
Hospital Products*	13.7%	21,325 +8.8%	19,596 +8.9%	17,999 +3.9%	17,331 +7.5%	16,118 +39.3%	11,568
Health-tex	19.3%	111,260 +30.0%	85,581 +20.3%	71,139 +11.3%	63,914 +14.6%	55,758 +20.1%	46,438
International	12.5%	198,918 +13.1%	175,921 +20.0%	146,643 +17.5%	124,821 +8.2%	115,338 +3.6%	111,352
Total	16.2%	\$674,583 +20.2%	\$561,257 +18.2%	\$474,728 +11.5%	\$425,581 +15.6%	\$368,081 +15.6%	\$318,407

*Restated for product transfers.

1975 Sales by Operating Divisions

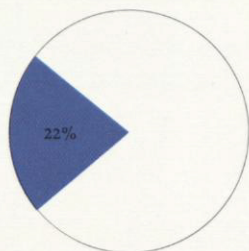


Health & Beauty Products

Some of the world's best known brand names, including *Vaseline*, *Pond's*, *Cutex*, *Intensive Care* and *Q-tips*, are featured in the Division's product mix. The most recent addition to the *Intensive Care* line of products, *Vaseline Intensive Care Mineral Bath*, was successfully introduced late in the year.

In 1975 *Pond's* Creams, *Vaseline Intensive Care Lotion*, *Vaseline Intensive Care Bath Beads*, *Q-tips* Cotton Swabs, *Vaseline* Petroleum Jelly and *Cutex* nail care products all showed good increases in sales compared with past years.

During the year, production of all *Vaseline Intensive Care* Bath Beads was brought in-house at Clinton, Connecticut with a resultant reduction in manufacturing costs. In 1976 further manufacturing and marketing efficiencies will result from the use of a new material with improved "break resistant" qualities in the production of *Vaseline* Petroleum Jelly jars.



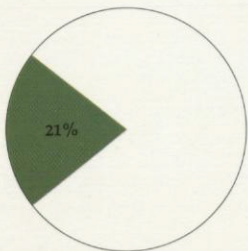


Packaged Foods

Young and old agree that the *Ragú* brand name is a promise of a good tasting meal. Since 1972, *Ragú* Spaghetti Sauce has outsold all other brands combined in the United States.

The successful introduction of *Ragú* Italian Cooking Sauce in 1975 and a healthy increase in the sales of *Adolph's* Meat Tenderizer added to the growth of this Division.

With the increasing importance of the Packaged Foods Division, the management team was expanded during the year, and an additional office building adjacent to the Rochester, New York headquarters was leased in December. At the same time, a new telecommunications system linking the Merced, California, Owensboro, Kentucky, and Rochester, New York facilities was established. The system significantly improves cash management and inventory control within the Division.

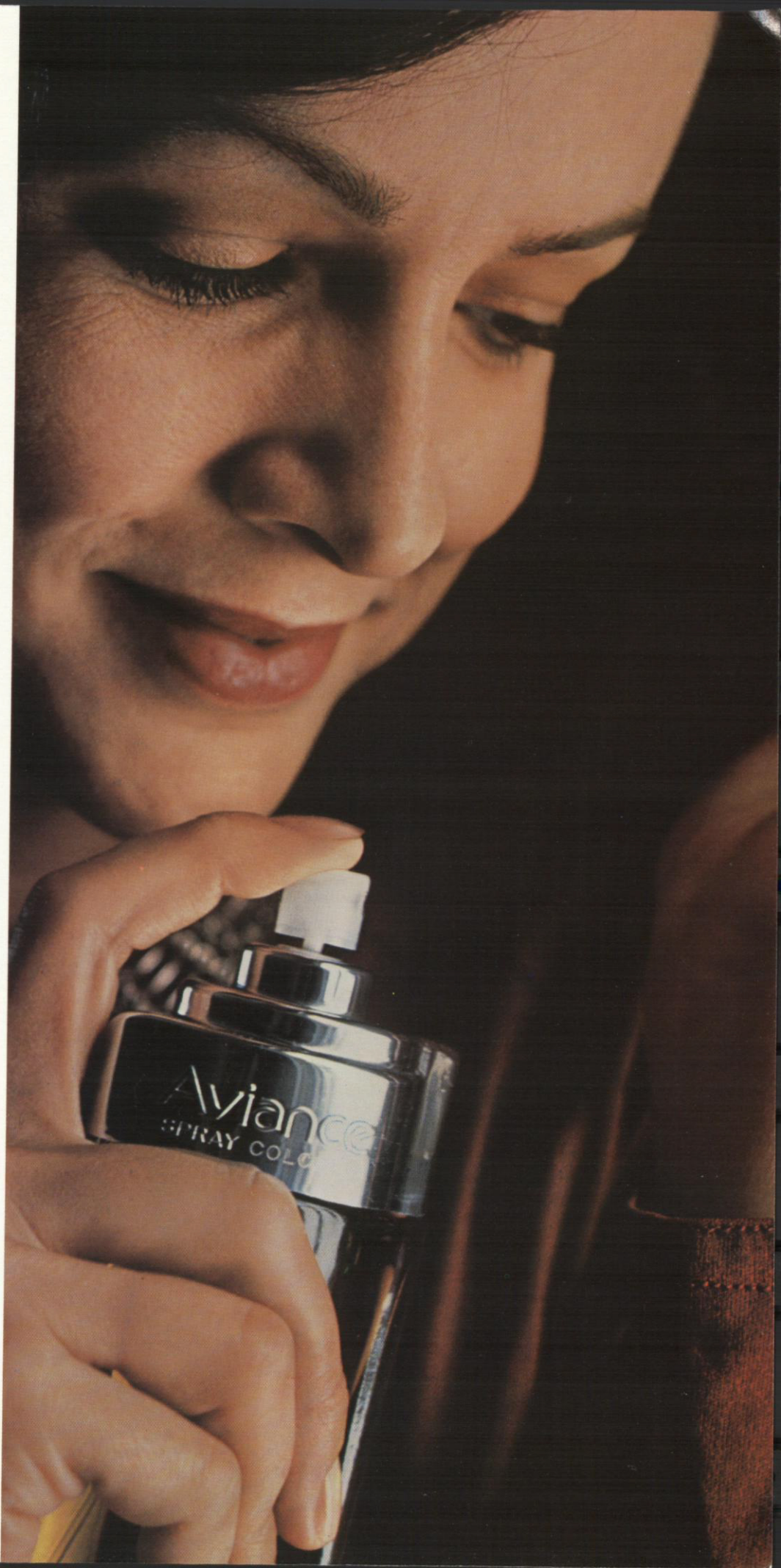
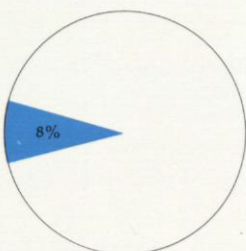


Prince Matchabelli

The successful launch of the new *Aviance* fragrance line of products by the Prince Matchabelli Division was one of the important developments in the highly competitive world of fragrances for 1975.

At the same time both the *Cachet* and *Wind Song* fragrance lines achieved excellent sales increases during the year. New products and line extensions also continue to strengthen the Division's *Aziza* brand as it gains recognition in the eye makeup field.

Commencing in 1976, *Prince Matchabelli* fragrances and *Aziza* eye products will be produced in the new manufacturing location in Huntsville, Alabama.

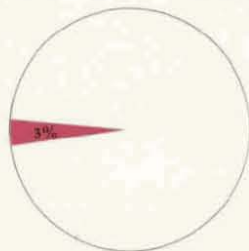
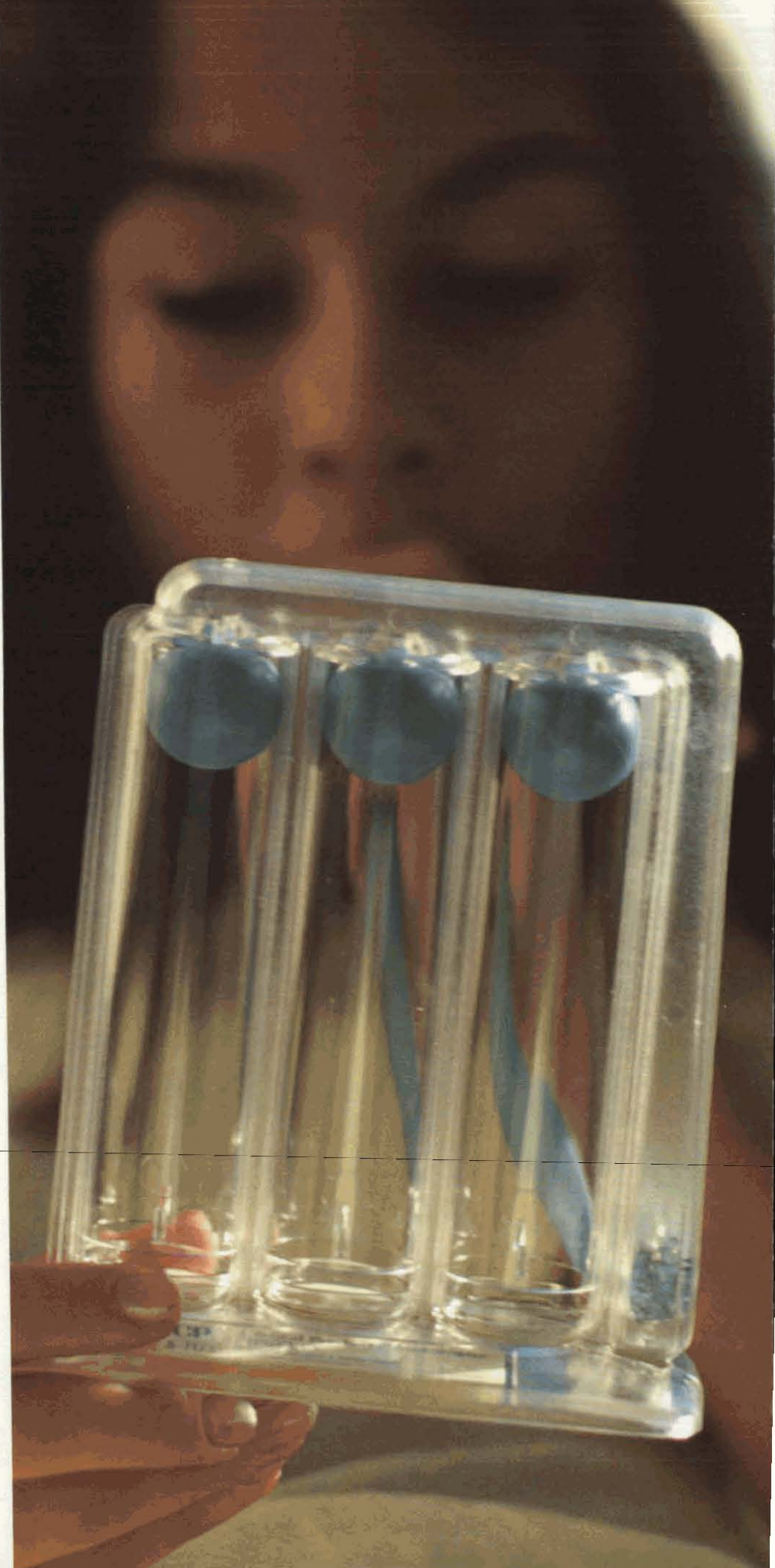


Hospital Products

For 1975, Chesebrough-Pond's smallest operating Division placed its sales emphasis on high margin products, including several additions to the line, such as the *Triflo* and *Uniflo* Respiratory Exercisers. These self-contained products, designed for single-patient use, provide effective and medically sound tools for periodic deep-breathing exercise.

New attention was given, too, to hospital admissions kits which include the Division's *Apex* and *Ballo* thermometers as well as *Vaseline Intensive Care* Lotion.

Production efficiencies were achieved with the consolidation of the workings of the Pioneer production facility in Pleasantville, New Jersey into the larger plants in Sherburne and Oriskany Falls, New York. Additionally, computerized equipment was introduced at the Watertown, New York plant to permit more accurate grading and scaling of thermometers.

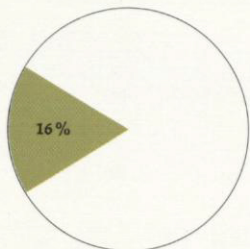


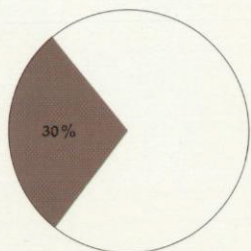
Health-tex

With the opening of four new plants over the past two years, the Health-tex Division completed an expansion program which added more than 50 per cent to its productive capacities.

Just as is true in adult apparel, fashion is becoming an increasingly important consideration in the children's clothing industry, and the Division's designers offered consumers an increased number of new styles during the year, covering the four selling seasons.

At the same time, closer quality control procedures involving more in-process sampling and testing were implemented and the sales force was increased to provide better service to the Health-tex regular accounts, which now number more than 10,000.





International

While foreign exchange problems had a most visible effect on Chesebrough-Pond's International Division results in 1975, the company made important progress in preparing itself for the global challenges which lie ahead.

With the admission of the United Kingdom and the Irish Republic into the

Common Market, operations in those countries were incorporated into the European Division, which reported significant sales gains in Spain, West Germany and Italy.

Sales continued to grow in the Caribbean, with volume doubling in two years, and business in Mexico improved by 36 per cent in 1975, making Mexico one of our top ten international markets.



On the African continent, established brands helped build volume in Nigeria, South Africa, Rhodesia and Malawi.

Far East highlights included the introduction of *Vaseline Intensive Care* Lotion into Singapore and Malaysia and *Pond's* Cleansing and Astringent Lotions and *Rejoire* Polish by *Cutex* into Japan.

Production and office facilities were modernized in Canada, where sales have doubled in four years.

1975 International Net Sales by Area

Europe	\$ 82,991,000	+12.0%
Western Hemisphere ..	62,917,000	+16.3%
Far East	29,630,000	+ 5.4%
Africa	23,380,000	+19.2%
	<u>\$198,918,000</u>	<u>+13.1%</u>

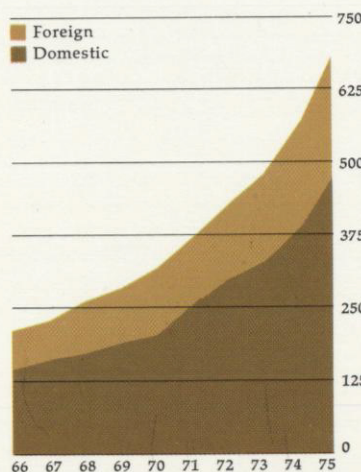
Ten-Year Summary 1966-1975

(in thousands of dollars)

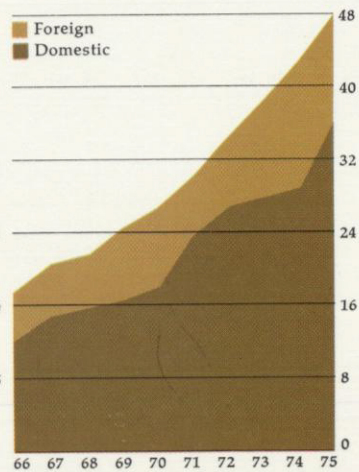
	1975	1974*	1973*	1972*	1971*	1970*
Operations:						
Net sales	\$674,583	\$561,257	\$474,728	\$425,581	\$368,081	\$318,407
Operating costs and expenses	577,280	478,080	399,746	356,411	306,413	265,194
Interest expense	8,607	6,460	4,601	4,324	3,921	4,174
Income before taxes	89,540	81,189	73,718	67,479	60,696	51,370
Income taxes	41,618	38,018	34,873	32,737	30,246	24,540
Net income	47,922	43,171	38,845	34,742	30,450	26,830
Earnings per share	3.01	2.72	2.47	2.24	1.98	1.77
Dividends per share	1.36	1.24	1.12	1.08	1.04	1.01
Pre-tax income as a per cent of net sales ...	13.3%	14.5%	15.5%	15.9%	16.5%	16.1%
Net income as a per cent of net sales	7.1%	7.7%	8.2%	8.2%	8.3%	8.4%
Year-End Financial Position:						
Current assets	\$312,876	\$286,630	\$209,307	\$188,394	\$165,273	\$144,977
Current liabilities	107,737	116,177	68,764	67,146	66,984	50,356
Working capital	205,139	170,453	140,543	121,248	98,289	94,621
Property, plant and equipment (net)	119,803	102,811	82,181	76,322	59,353	50,244
Total assets	478,582	436,262	338,896	311,620	270,988	237,328
Long-term debt	76,714	60,275	40,217	48,670	41,726	45,523
Shareholders' equity	282,822	250,759	223,170	191,678	158,794	137,116
Shareholders' equity per share	17.70	15.79	14.12	12.24	10.30	8.99
Return on shareholders' equity	19.1%	19.3%	20.3%	21.9%	22.2%	23.1%
Shares outstanding (excluding treasury shares)	15,975,276	15,877,105	15,809,695	15,659,279	15,413,436	15,246,655
Stock Price Range	67-37 ¹ / ₈	67 ¹ / ₂ -26 ³ / ₄	92-59 ⁷ / ₈	89 ¹ / ₂ -56 ³ / ₈	60 ¹ / ₂ -44 ¹ / ₂	52 ⁷ / ₈ -32 ³ / ₄

*Restated to reflect change in accounting method for foreign currency translation.

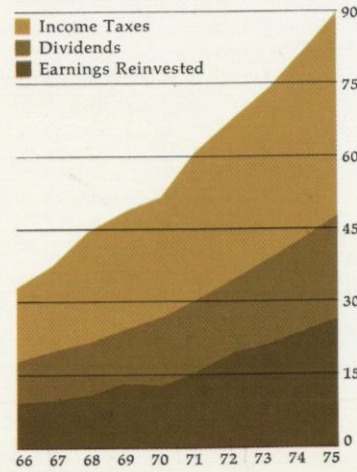
Net Sales
(in millions of dollars)



Net Income
(in millions of dollars)



Distribution of Income
(in millions of dollars)

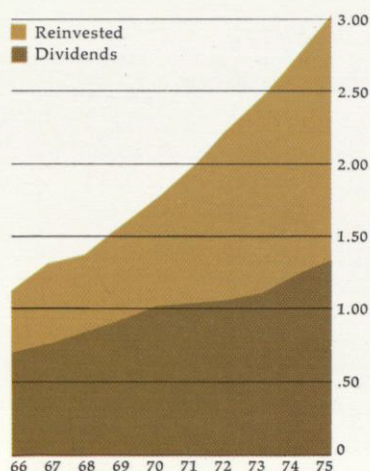


1969*	1968*	1967*	1966*
\$282,348	\$254,654	\$225,112	\$208,651
234,921	211,387	189,744	177,369
2,742	1,213	829	956
48,460	44,452	37,965	32,958
24,016	22,679	17,325	15,137
24,444	21,773	20,640	17,821
1.59	1.39	1.31	1.14
.94	.86	.78	.70
17.2%	17.5%	16.9%	15.8%
8.7%	8.6%	9.2%	8.5%

\$133,836	\$120,111	\$103,101	\$ 93,135
46,542	42,512	34,226	31,248
87,294	77,599	68,875	61,887
47,535	37,086	34,732	30,366
217,003	173,309	147,951	134,049
47,625	19,730	13,080	14,295
116,230	108,725	97,330	87,024
7.80	6.91	6.21	5.56
22.5%	22.4%	23.7%	22.5%

14,906,612	15,738,280	15,676,564	15,654,420
54 ¹ / ₂ -37	48 ¹ / ₂ -34 ¹ / ₈	44 ³ / ₄ -27 ⁵ / ₈	32-20

**Earnings and Dividends
Per Share** (in dollars)



Management Analysis of the Summary of Operations

Net Sales

Consolidated net sales for 1975 showed an increase of 20.2 per cent over 1974 with all operating divisions contributing to the gain. This compares with a sales increase of 18.2 per cent in 1974. The Packaged Foods Division posted an increase of 39.0 per cent following an increase of 25.8 per cent in 1974. The new *Ragú* Italian Cooking Sauce made an important contribution to the Division's continued high rate of growth. The Health-tex Division, benefiting from increased plant capacity, recorded a 30.0 per cent sales gain, improving on the 20.3 per cent gain achieved in 1974. The introduction of the new *Aviance* fragrance line helped the Prince Matchabelli Division achieve a 27.6 per cent sales gain, following the gain of 32.3 per cent reported in 1974.

Of the total domestic sales increase of 23.4 per cent in 1975, approximately 11.0 per cent came from price increases necessitated by increasing costs and 12.4 per cent was the result of volume growth. International Division sales growth of 13.1 per cent was the result of price increases of approximately 29.7 per cent, offset by volume reductions of 3.4 per cent and changes in relative rates of exchange which reduced sales by 13.2 per cent.

The consolidated sales increase in 1974 over 1973 of 18.2 per cent was the result of approximate price increases of 12.2 per cent and volume increases of 7.8 per cent, offset by approximately 1.8 per cent in exchange fluctuations.

Operating Costs and Expenses

Operating costs and expenses have been affected significantly by the accounting required to conform to the Financial Accounting Standards Board Statement No. 8 for translation of foreign currency financial statements. The change

in accounting method has two effects on operating results: first, adjustments to inventory carrying values as a result of exchange rate fluctuations are postponed until the inventory is sold and second, the classification of such adjustments as "Cost of products sold" rather than "Gain or (loss) on foreign exchange". Cost of products sold rose from 48.3 per cent of sales in 1974 to 49.5 per cent in 1975. The impact of exchange losses on cost of products sold accounted for almost half of the percentage increase.

Slightly higher production costs in each of the operating divisions, except the Prince Matchabelli Division, which were not entirely offset by increases in sales prices, also contributed to the increase. The larger percentage of the total sales mix represented by the Health-tex and Packaged Foods Divisions, which have relatively higher cost of goods than the other divisions, made up the balance of the increase. The increase of 1.2 per cent in 1975 was considerably less than the increase of 2.9 per cent of sales experienced in 1974 compared to 1973 when high inflation rates put considerable pressure on the prices of ingredients and packaging materials.

Selling, advertising and administrative expenses, on the other hand, while up 17.5 per cent to support the sales gain, absorbed only 36.1 per cent of each sales dollar as compared with the 36.9 per cent of sales in 1974. The major increases in advertising and promotional expenditures were incurred in the Packaged Foods and Prince Matchabelli Divisions to support their new product intro-

ductions of *Ragú* Italian Cooking Sauce and the *Aviance* fragrance line. The selling, advertising and administrative group of expenses had also absorbed a smaller percentage of the sales dollar in 1974 than it had in 1973.

Interest Expense

Interest expense at \$8,607,000 was 33.2 per cent higher than in 1974, as a result of a significantly higher level of borrowing required to finance our second year of major capital expenditures and increased working capital needs associated with the company's sales growth. Interest rates, however, averaged out at a considerably lower effective rate during 1975 than we experienced during 1974. Most economic projections call for an increase in interest rates over the next few years and, therefore, we felt it prudent to provide for our forecasted cash needs during the immediate years ahead. Acting upon this conclusion, on February 10, 1976, we privately placed \$40 million of three-year promissory notes with the Metropolitan Life Insurance Company at an interest rate of 8.25 per cent. Based upon internal forecasts, this financing arrangement is ideally suited to our projected needs. Although the term of the promissory notes is for three years, the agreement permits repayment at the end of two years without penalty, which provides considerable flexibility in structuring our future financial requirements. The proceeds of the \$40 million loan have been used to eliminate our bank revolving credit and to reduce short-term borrowings.

The increased borrowing during 1975 was utilized to finance some of our major plant expansions—the completion of expanded facilities for the Health-tex and Packaged Foods Divisions plus the major portion of the expenditures for the new

Prince Matchabelli Division plant in Huntsville, Alabama which will go into full operation in 1976. In addition, the increase in working capital was needed to carry the higher level of tomato paste inventories associated with the increased level of sales in the Packaged Foods Division.

In 1974 interest expense had shown a sharp increase over 1973, principally as a result of substantially increased borrowing required to finance the capital expansion program and increased working capital needs of that year and in part as a result of higher interest rates in 1974 over 1973. The major capital expenditures in 1974 were made to provide increased capacity for the Health-tex and Packaged Foods Divisions.

Provision for Taxes on Income

The 1975 Provision for Taxes on Income at 46.5 per cent of income before taxes was slightly lower than the 1974 rate of 46.8 per cent. The lower rate was principally the result of tax-exempt earnings from our operations in Puerto Rico. In 1973 the effective rate was 47.3 per cent.

Net Income

Net income for 1975 was higher than 1974 by \$4,751,000, or 11.0 per cent. The change required by the Financial Accounting Standards Board Statement No. 8 decreased the adverse impact of foreign currency fluctuations by \$1,196,000 in 1975. The retroactive ap-

plication of the Statement decreased 1974 net income by \$440,000. Despite the reduction of the exchange loss in 1975 because of the change in accounting, earnings were, nevertheless, adversely affected by \$5,332,000 resulting from currency devaluations, particularly in three of our major markets—Argentina, South Africa and the United Kingdom—and, to a lesser degree, in 13 other

markets. This is in sharp contrast to 1974 when exchange losses reduced net income by \$447,000.

To assist our shareholders who will note that the earnings as shown in this report do not agree with the earnings previously reported to them, we have prepared the following reconciliation for 1975 and 1974:

Restatement for FASB Statement No. 8
(in thousands of dollars)

	1975			1974		
	As Previously Reported	Restated	Increase (Decrease)	As Previously Reported	Restated	Increase (Decrease)
1st Quarter						
Net Income	\$12,059	\$12,019	\$ (40)	\$10,954	\$10,565	\$ (389)
Earnings Per Share ..	.76	.76	—	.69	.67	(.02)
2nd Quarter						
Net Income	9,576	10,494	918	8,703	8,483	(220)
Earnings Per Share ..	.60	.66	.06	.55	.53	(.02)
3rd Quarter						
Net Income	15,219	16,373	1,154	14,832	15,544	712
Earnings Per Share ..	.96	1.02	.06	.94	.98	.04
4th Quarter						
Net Income	9,872*	9,036	(836)	9,122	8,579	(543)
Earnings Per Share ..	.61*	.57	(.04)	.57	.54	(.03)
12 Months						
Net Income	\$46,726*	\$47,922	\$1,196	\$43,611	\$43,171	\$ (440)
Earnings Per Share ..	2.93*	3.01	.08	2.75	2.72	(.03)
Impact of Exchange Fluctuations on Annual Net Income						
Exchange gain (loss) .	\$ (6,528)*	\$ (1,359)		\$ (7)	\$ 496	
Cost of products sold	—	(3,973)		—	(943)	
Total	<u>\$ (6,528)*</u>	<u>\$ (5,332)</u>		<u>\$ (7)</u>	<u>\$ (447)</u>	
Per Share	<u>\$ (.41)*</u>	<u>\$ (.33)</u>		<u>—</u>	<u>\$ (.03)</u>	

*As would have been reported.

Inventories

In 1974 as compared with 1973 there had been a sharp increase in inventory levels as a result of a number of conditions, among which the spiraling rate of inflation was of prime importance, causing not only an accelerated increase in the cost of materials but also considerable dislocation in sources of supply.

As a result of a continuing program to bring inventories back to more traditional levels of sales coverage, the 20.2 per cent sales increase was achieved in 1975 with an increase in inventories of only 9.1 per cent. Thus, at year end, inventories were down to 25.9 per cent of the annual sales figure compared to 28.5 per cent at the end of 1974.

Another major reason for the inventory increase in 1974 over 1973 and again in 1975 over 1974 was the continued rapid growth of the *Ragú* business and the increasing importance of tomato paste in our total inventory picture. Increased stocks of tomato paste account for a significant portion of the \$11,841,000 increase shown in 1975 as compared with 1974 in raw materials and work-in-process inventories.

Operating Results by Lines of Business	1975	1974*	1973*	1972*	1971*
		(in thousands of dollars)			
Net Sales					
Consumer packaged goods	\$540,163	\$454,843	\$385,278	\$344,272	\$296,005
Apparel	111,260	85,581	71,139	63,914	55,758
Hospital supplies	23,160	20,833	18,311	17,395	16,318
Total Net Sales	<u>\$674,583</u>	<u>\$561,257</u>	<u>\$474,728</u>	<u>\$425,581</u>	<u>\$368,081</u>
Income from Operations					
Consumer packaged goods	\$ 81,184	\$ 71,103	\$ 64,519	\$ 59,631	\$ 52,098
Apparel	16,568	12,953	12,199	11,698	11,027
Hospital supplies	1,848	1,504	718	16	446
Total Income from Operations	<u>99,600</u>	<u>85,560</u>	<u>77,436</u>	<u>71,345</u>	<u>63,571</u>
Other income (expense) net	<u>(10,060)</u>	<u>(4,371)</u>	<u>(3,718)</u>	<u>(3,866)</u>	<u>(2,875)</u>
Income before provision for taxes on income	89,540	81,189	73,718	67,479	60,696
Provision for taxes on income	41,618	38,018	34,873	32,737	30,246
Net income	<u>\$ 47,922</u>	<u>\$ 43,171</u>	<u>\$ 38,845</u>	<u>\$ 34,742</u>	<u>\$ 30,450</u>

*Restated to reflect change in accounting method for foreign currency translation.

Quarterly Data	1st Quarter*	2nd Quarter*	3rd Quarter*	4th Quarter
		(in thousands of dollars)		
1975:				
Net Sales	\$152,113	\$156,970	\$195,788	\$169,712
Net Income	12,019	10,494	16,373	9,036
Earnings Per Share	.76	.66	1.02	.57
Dividends Per Share	.34	.34	.34	.34
Stock Price Range	65-37 ¹ / ₈	67-56 ¹ / ₂	66 ³ / ₈ -49 ¹ / ₄	63 ¹ / ₄ -49
1974:*				
Net Sales	\$128,860	\$127,842	\$157,110	\$147,445
Net Income	10,565	8,483	15,544	8,579
Earnings Per Share	.67	.53	.98	.54
Dividends Per Share	.31	.31	.31	.31
Stock Price Range	67 ¹ / ₂ -54 ¹ / ₈	63 ¹ / ₄ -55 ¹ / ₄	57 ¹ / ₂ -30 ¹ / ₄	47 ³ / ₈ -26 ³ / ₄

*Restated to reflect change in accounting method for foreign currency translation.

Consolidated Statement of Income

	Year ended December 31,	
	1975	1974*
Net sales	\$674,583,000	\$561,257,000
Royalties	2,297,000	2,383,000
Operating revenues	676,880,000	563,640,000
Cost of products sold	333,859,000	270,881,000
Selling, advertising and administrative expenses	243,421,000	207,199,000
Operating costs and expenses	577,280,000	478,080,000
Income from operations	99,600,000	85,560,000
Other income (expense):		
Interest expense	(8,607,000)	(6,460,000)
Interest income	568,000	1,077,000
Gain or (loss) on foreign exchange	(1,359,000)	496,000
Miscellaneous—net	(662,000)	516,000
	(10,060,000)	(4,371,000)
Income before provision for taxes on income	89,540,000	81,189,000
Provision for taxes on income (including charge equivalent to tax benefit relative to the Stock Plan—\$1,426,000 in 1975 and \$1,311,000 in 1974)	41,618,000	38,018,000
Net income	\$ 47,922,000	\$ 43,171,000
Earnings per share	\$3.01	\$2.72

*Restated to reflect change in accounting method for foreign currency translation and reclassified to conform to 1975 presentation.

See accompanying notes.



Consolidated Balance Sheet

ASSETS	December 31,	
	1975	1974*
Current Assets:		
Cash (including time deposits of \$2,460,000 in 1975 and \$1,846,000 in 1974)	\$ 16,927,000	\$ 14,977,000
Short-term investments, at cost which approximates market	460,000	367,000
Accounts receivable	113,602,000	105,141,000
Inventories:		
Finished goods	58,245,000	55,551,000
Raw materials and work-in-process	116,200,000	104,359,000
Prepaid expenses	7,442,000	6,235,000
Total current assets	312,876,000	286,630,000
Property, Plant and Equipment:		
At cost	171,292,000	148,287,000
Less accumulated depreciation	51,489,000	45,476,000
Net property, plant and equipment	119,803,000	102,811,000
Other Assets, at cost	4,822,000	5,755,000
Goodwill and Trademarks, at cost	41,081,000	41,066,000
	<u>\$478,582,000</u>	<u>\$436,262,000</u>

*Restated to reflect change in accounting method for foreign currency translation.

See accompanying notes.

LIABILITIES AND SHAREHOLDERS' EQUITY	December 31,	
	1975	1974*
Current Liabilities:		
Notes payable	\$ 29,195,000	\$ 35,116,000
Accounts payable and accrued liabilities	62,244,000	61,443,000
Federal and foreign income taxes	13,042,000	18,338,000
Long-term obligations due within one year	3,256,000	1,280,000
Total current liabilities	107,737,000	116,177,000
Long-Term Obligations	76,714,000	60,275,000
Deferred Executive Incentive Compensation	2,326,000	2,311,000
Deferred Taxes	4,496,000	3,397,000
Other Non-Current Liabilities	4,487,000	3,343,000
Shareholders' Equity:		
Preferred stock—\$1.00 par value		
Authorized and unissued—1,000,000 shares	—	—
Common stock—\$1.00 par value		
Authorized—20,000,000 shares		
Issued—16,030,265 shares (1974—15,937,766)	16,030,000	15,938,000
Capital surplus	54,432,000	48,925,000
Retained earnings	214,470,000	188,223,000
	284,932,000	253,086,000
Less 54,989 shares of treasury stock (1974—60,661) at cost	2,110,000	2,327,000
Total shareholders' equity	282,822,000	250,759,000
	<u>\$478,582,000</u>	<u>\$436,262,000</u>



Consolidated Statements of Capital Surplus and Retained Earnings

	Year ended December 31,	
	1975	1974
Capital Surplus		
Balance at beginning of year	\$ 48,925,000	\$ 45,261,000
Excess of conversion price of debentures over par value of stock issued less related expenses	759,000	312,000
Proceeds in excess of par value of stock issued under the Stock and Stock Option Plans	3,266,000	1,968,000
Tax benefit relative to the Stock Plan	1,426,000	1,311,000
Other	56,000	73,000
Balance at end of year	<u>\$ 54,432,000</u>	<u>\$ 48,925,000</u>
Retained Earnings		
Balance at beginning of year	\$188,223,000	\$163,989,000
Adjustment for cumulative effect on years prior to 1974 for the change in the method of accounting for foreign currency translation	—	518,000
Net income	<u>47,922,000</u>	<u>43,171,000</u>
	236,145,000	207,678,000
Dividends paid—\$1.36 per share (\$1.24 in 1974)	<u>21,675,000</u>	<u>19,455,000</u>
Balance at end of year	<u>\$214,470,000</u>	<u>\$188,223,000</u>

See accompanying notes.



Statement of Changes in Consolidated Financial Position

	Year ended December 31,	
	1975	1974*
Sources of Working Capital		
Net income	\$ 47,922,000	\$ 43,171,000
Add charges to net income not involving working capital:		
Depreciation	8,950,000	7,263,000
Stock Plan tax benefit	1,426,000	1,311,000
Deferred taxes	1,099,000	1,119,000
Other expenses not requiring expenditures of cash	2,416,000	2,488,000
Provided from operations	61,813,000	55,352,000
Conversion of debentures into common stock	784,000	351,000
Proceeds from stock issued under the Stock and Stock Option Plans	3,341,000	2,025,000
Increase in long-term obligations	21,100,000	24,000,000
Book value of disposed assets	1,599,000	1,940,000
	<u>88,637,000</u>	<u>83,668,000</u>
Applications of Working Capital		
Additions to property, plant and equipment	27,541,000	29,833,000
Decrease in long-term obligations:		
Convertible debentures	784,000	351,000
Other	3,877,000	3,591,000
Dividends	21,675,000	19,455,000
Other—net	74,000	528,000
	<u>53,951,000</u>	<u>53,758,000</u>
Increase in working capital	<u>\$ 34,686,000</u>	<u>\$ 29,910,000</u>
Changes in Components of Working Capital		
Increase (decrease) in current assets:		
Cash	\$ 1,950,000	\$ (6,990,000)
Short-term investments	93,000	(1,150,000)
Accounts receivable	8,461,000	19,551,000
Inventories	14,535,000	65,097,000
Prepaid expenses	1,207,000	815,000
	<u>26,246,000</u>	<u>77,323,000</u>
Increase (decrease) in current liabilities:		
Notes payable	(5,921,000)	29,119,000
Accounts payable and accrued liabilities	801,000	15,083,000
Federal and foreign income taxes	(5,296,000)	7,201,000
Long-term obligations due within one year	1,976,000	(3,990,000)
	<u>(8,440,000)</u>	<u>47,413,000</u>
Increase in working capital	<u>\$ 34,686,000</u>	<u>\$ 29,910,000</u>

*Restated to reflect change in accounting method for foreign currency translation.

See accompanying notes.

Notes to Consolidated Financial Statements

Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of all domestic and foreign subsidiaries.

Foreign Currency Translation

Inventories, property, plant, equipment, goodwill and trademark accounts are translated into dollars at the appropriate rates of exchange at dates of acquisition. All other assets and liabilities are translated at the approximate year-end rates of exchange. Operating accounts, except cost of products sold, depreciation and amortization, are translated at rates of exchange in effect during the year. Gains and losses resulting from exchange rate fluctuations during the year are reflected in that year's income.

Inventories

Inventories are valued at the lower of cost (first-in, first-out) or market. Cost represents standard cost which approximates actual cost.

Property, plant and equipment

These assets are stated at cost and substantially all depreciation is provided on a straight-line basis for financial accounting purposes. Accelerated depreciation methods are used for income tax purposes. Deferred income taxes are provided on the difference between the depreciation expense for financial accounting and income tax purposes. Maintenance and repairs are charged against earnings as incurred. Additions and major improvements are capitalized.

Investment Credit

Investment tax credits (which were not material) are applied as a reduction of the provision for taxes on income in the year the related property is put into service.

Goodwill and Trademarks

Cost in excess of net assets of acquired companies and trademarks acquired under agreements entered into prior to November 1, 1970 is not being amortized since there is no present indication of any permanent impairment in the value of these assets. The cost of intangible assets acquired under agreements entered into after October 31, 1970 will be amortized on the basis of their estimated lives, but not exceeding 40 years.

Earnings Per Share

The computation of earnings per share is based on the weighted average number of shares outstanding (15,929,000 in 1975 and 15,852,000 in 1974). Dilution relating to convertible debentures and other rights was not material.

Advertising and Promotion Expenses

Advertising expenses are charged to income during the year in which they are incurred. Promotion expenses are charged to income during the period of the promotional campaign.

Retirement Plans

The company has various retirement plans covering the majority of its employees worldwide. The company provides for pension costs based on current and future services. The company's policy is to fund pension costs and substantially all past service costs have been fully funded for the principal plans.



Change in Accounting Method for Foreign Currency Translation

During 1975, the company changed its method of translation for inventories from the current to the historic method to conform with the recommendations of the Financial Accounting Standards Board regarding the translation of foreign currency financial statements. The financial statements for 1974 have been appropriately restated. The effect of this change was to increase net income and earnings per share by \$1,196,000 and \$.08 respectively for 1975 and to decrease net income and earnings per share by \$440,000 and \$.03 respectively for 1974.

Foreign Operations

The consolidated balance sheet at December 31, 1975 and 1974 includes net assets of \$100,870,000 and \$91,974,000 respectively for subsidiaries and branches in foreign countries.

Results of foreign operations included in the consolidated statement of income were as follows:

	1975	1974
Net sales	\$198,918,000	\$175,921,000
Net income	11,389,000	13,872,000

Unremitted foreign earnings are intended to remain permanently invested to finance future growth and expansion and accordingly no income taxes have been provided on these undistributed earnings which aggregated \$62,609,000 at December 31, 1975.

Stock Plan

The Plan provides that no more than 150,000 shares can be allocated in any one year and no more than 4% thereof can be allocated to any one individual in any year. With the approval of shareholders, in 1974 the Plan was amended to provide for the awarding rather than the purchasing of shares and further amended to allow employees to defer the receipt of the shares until separation from the company. Shares offered under the Stock Purchase Plan in prior years have various restrictions on disposal of the shares and allow for payment of the shares over a 5-year period.

The status of the Plan at December 31 was as follows:

1975	Purchase Plan		Award Plan	Total Shares
	Shares	Purchase Price	Shares	
Outstanding				
January 1	151,817	\$19.24-25.65	61,871	213,688
Allocations	—	—	122,546	122,546
Issued	(57,002)	19.24-25.65	(10,630)	(67,632)
Deferred	—	—	(1,740)	(1,740)
Cancelled	(3,795)	21.20-25.65	(5,588)	(9,383)
Outstanding				
December 31	91,020	\$21.20-25.65	166,459	257,479
Shares Reserved ...				811,636
1974				
Outstanding				
January 1	206,663	\$17.53-25.65	—	206,663
Allocations	—	—	61,871	61,871
Issued	(49,329)	17.53-25.65	—	(49,329)
Deferred	—	—	—	—
Cancelled	(5,517)	21.20-25.65	—	(5,517)
Outstanding				
December 31	151,817	\$19.24-25.65	61,871	213,688
Shares Reserved ...				879,268

Under the Internal Revenue Code and pertinent regulations of the United States Treasury Department, the company is entitled to tax deductions relating to the difference between the employees' purchase price and the market value of the shares at certain applicable measurement dates. With respect to purchase agreements dated prior to January 1, 1973, an amount equivalent to the tax benefit provided by these regulations has been charged to income and has been credited to capital surplus as additional consideration received by the company for the stock

sold under the Plan. With respect to agreements dated after December 31, 1972, a charge to income is reflected over a five year period for compensation expense. During 1975 and 1974, \$2,194,000 and \$1,403,000 were charged to income respectively. The measurement dates and the timing of expense for financial accounting and tax purposes differ. Deferred taxes have been provided for the related future tax benefit. Additional tax effects arising from the change in market values on these different measurement dates are applied to capital surplus.

Stock Option Plans

On May 4, 1972, the shareholders approved a Qualified Stock Option Plan which authorizes issuance of options to purchase not more than 500,000 shares of common stock by certain employees at an option price of not less than 100% of the fair market value of the stock at date of grant. At December 31, 1975, no options had been granted.

On May 17, 1973, the date of the merger with Health-tex Inc., the company adopted a qualified Substitute 1971 Health-tex Employee Stock Option Plan. All Health-tex options that were outstanding at that date were converted into options for the company's common stock and the option price was adjusted accordingly. At January 1, 1975, there were 43,400 shares under option at prices ranging from \$30.00 to \$74.88 per share. During the year, options to purchase 9,169 shares were exercised. At December 31, 1975, options to purchase 34,231 shares were outstanding. No additional options are to be granted under the Plan.

Property, Plant and Equipment

Property, plant and equipment at December 31 was as follows:

	1975	1974
Land	\$ 8,243,000	\$ 7,423,000
Buildings	62,860,000	51,167,000
Machinery and equipment	87,804,000	74,414,000
Leasehold improvements	3,307,000	2,582,000
Construction in progress	9,078,000	12,701,000
	<u>171,292,000</u>	<u>148,287,000</u>
Less accumulated depreciation	51,489,000	45,476,000
Net property, plant and equipment	<u>\$119,803,000</u>	<u>\$102,811,000</u>

Rent Expense and Lease Commitments

Rent expense charged to income was \$9,562,000 and \$8,059,000 in 1975 and 1974 respectively. At December 31, 1975, the lease commitments were as follows:

	Leased Facilities	Sublease Revenues	Net Commitments
	(in thousands of dollars)		
1976	\$5,300	\$514	\$4,786
1977	4,628	326	4,302
1978	3,597	61	3,536
1979	3,089	53	3,036
1980	2,804	26	2,778
1981-85	7,889		7,889
1986-90	1,674		1,674
1991-95	297		297

There are no lease commitments beyond 1995.

Long-Term Obligations

Long-term obligations at December 31, excluding amounts due within one year, were:

	1975	1974
4 ³ / ₄ % Convertible debentures, due December 31, 1983	\$ 2,014,000	\$ 2,631,000
6 ¹ / ₄ % Convertible debentures, due December 15, 1984	15,765,000	15,932,000
Term loans	10,935,000	13,387,000
Long-term lease obligations	8,000,000	7,325,000
5% Notes due in equal annual installments through 1976	—	1,000,000
Domestic revolving credit loans	20,000,000	20,000,000
Other long-term debt	20,000,000	—
Total	<u>\$76,714,000</u>	<u>\$60,275,000</u>



In 1968 and 1969, a wholly-owned subsidiary of the company sold to purchasers outside the United States \$12,000,000 principal amount of 4³/₄% debentures, and \$25,000,000 principal amount of 6¹/₄% debentures, respectively. These debentures are guaranteed on a subordinated basis as to principal and interest by the company. The 4³/₄% debentures are convertible into common stock of the company at \$49.00 per share and are subject to redemption through annual sinking fund payments of \$850,000 beginning December 31, 1976. During 1975 and 1974, \$617,000 and \$251,000 of the 4³/₄% debentures were converted into 12,586 and 5,120 shares, respectively. The 6¹/₄% debentures are convertible into common stock of the company at \$53.50 per share and are subject to redemption through annual sinking fund payments of \$1,800,000 beginning December 15, 1977. During 1975 and 1974, \$167,000 and \$100,000 of the 6¹/₄% debentures were converted into 3,112 shares and 1,862 shares, respectively. At December 31, 1975, an aggregate of 335,887 shares of common stock was reserved for conversion of these debentures.

Term loans consist of two \$5,000,000 loans, an \$800,000 loan and a \$135,000 loan. The two \$5,000,000 loans provide for interest at 115% of the prime rate through December 31, 1975 and thereafter at ¹/₄ of 1% above 115% of the prime rate with a maximum average interest rate of 7¹/₂%. The loans are payable in three installments beginning December 31, 1977 and may be repaid earlier at the company's discretion without penalty. The \$800,000 is the long term portion of a \$2,000,000 balance owing on an original term loan of \$2,400,000. A prepayment during the year was applied in inverse order of maturity. The loan, with interest at 1¹/₄% over the London Interbank rate, is payable in four equal semi-annual installments commencing June 30, 1976. At December 31, 1975, interest on the loan was 7³/₁₆%. Subsequent to year end, the interest rate charged on the loan was reduced to ¹/₂of 1% over the London Interbank rate. The \$135,000 is a Peruvian currency loan bearing interest at 14% and payable in monthly installments to January, 1981.

Three long-term leases for plants have been treated as purchases for both financial accounting and tax purposes. Two leases

each call for an annual rental of approximately \$400,000. One lease expires in 1985 and the other in 1994. The third lease calls for an annual rental of approximately \$110,000 and expires in 1990. The company has an option to purchase the facilities at any time by funding an amount sufficient to retire the then outstanding debt or for a nominal amount after the retirement of the debt.

The domestic revolving credit loans consist of two \$10,000,000 loans which provide for interest at 109% of the floating prime rate through July 10, 1977, at 109% of the floating prime rate plus ¹/₄% through July 10, 1979 and at 109% of the floating prime rate plus ¹/₂% through July 10, 1981. The loan can be converted to a term loan on July 10, 1977, payable in equal quarterly installments through July 10, 1981.

On February 10, 1976, the company placed \$40,000,000 of 8¹/₄% notes due January 31, 1979, with an institutional investor. A mandatory prepayment of \$20,000,000 is required on January 2, 1979. Voluntary prepayments, without premium or penalty, may be made subsequent to January 31, 1978. The proceeds were used to repay the balance owing on the revolving credit loans and short-term loans. As a result, \$20,000,000 of short-term loans has been reclassified as other long term debt at December 31, 1975.

The various loan agreements contain working capital and dividend restrictions. The unrestricted retained earnings at December 31, 1975 were \$185,441,000.

Deferred Executive Incentive Compensation

Under the provisions of the Executive Incentive Profit Sharing Plan \$1,789,000 was charged to income in 1975 and \$1,542,000

in 1974. Of these amounts, payments of \$314,000 and \$205,000 have been deferred in 1975 and 1974 and converted into 4,333 units, net of forfeitures, and 5,329 units, respectively, measured by the current market value of a share of the company's common stock. Participants will receive, upon retirement, death or termination of employment, shares of the company's common stock equal to the number of units credited to their accounts unless the company elects to distribute cash equal to the market value of such shares. Distribution to participants in 1975 consisted of 5,674 shares of common stock. At December 31, 1975, there were 54,458 units credited to participants under the Plan. Deferred taxes have been provided for the related future tax benefit.

Retirement Plans

The company has charged to income \$2,876,000 in 1975 and \$2,024,000 in 1974 for all retirement plans.

Research and Development

In 1975 and 1974 respectively, approximately \$5,039,000 and \$4,153,000 were expended in company-sponsored research to develop and improve products.

Report of Certified Public Accountants

ARTHUR YOUNG & COMPANY

277 Park Avenue
New York, N.Y. 10017

To the Shareholders, Chesebrough-Pond's Inc.

We have examined the accompanying consolidated balance sheet of Chesebrough-Pond's Inc. and subsidiaries at December 31, 1975 and 1974 and the related consolidated statements of income, capital surplus, retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Chesebrough-Pond's Inc. and subsidiaries at December 31, 1975 and 1974 and the consolidated results of operations and the changes in consolidated financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Income Taxes

The provision for taxes on income consists of the following segments:

	1975	1974
United States	\$28,871,000	\$26,439,000
Foreign	8,392,000	8,864,000
State and local	4,355,000	2,715,000
Total	<u>\$41,618,000</u>	<u>\$38,018,000</u>

Deferred income taxes included in the above amounted to \$1,099,000 in 1975 and \$1,119,000 in 1974. Deferred taxes arise primarily from the use of accelerated depreciation methods for income tax purposes.

Common Stock

On February 18, 1976, the Board of Directors proposed a two-for-one stock split and an increase in the company's authorized common stock to 50 million shares. If approved by the shareholders at the Annual Meeting to be held on May 6, 1976, each shareholder of record on June 4, 1976, will receive one additional share for each share then owned.

Arthur Young & Company

February 18, 1976

Corporate Data

Executive Offices

33 Benedict Place
Greenwich, Conn. 06830
Telephone (203) 661-2000

Certified Public Accountants

Arthur Young & Company
277 Park Avenue
New York, N.Y. 10017

Transfer Agent

The Chase Manhattan Bank, N.A.
1 New York Plaza
New York, N.Y. 10015

Registrar

Bankers Trust Company
485 Lexington Avenue
New York, N.Y. 10017

Stock Exchange Listings

New York Stock Exchange (CBM)
London Stock Exchange
Paris Bourse

**The Annual Meeting of
Shareholders will be held
at 10:30 a.m. on Thursday,
May 6, 1976, at the Biltmore
Hotel, New York, N.Y.**

**The Form 10-K Annual Report
filed with the Securities and
Exchange Commission may be
obtained upon request to
the Secretary of the company.**

Board of Directors

J. Edgar Bennett*
*Group Vice President,
Chesebrough-Pond's Inc.*

John F. Betts**
*Retired Chairman of the Board,
Interpace Corporation*

Anthony L. Conrad**
*President and
Chief Executive Officer,
RCA Corporation*

Alfred S. Foote**
*Consultant—United States Steel
Corporation and Carnegie
Pension Fund*

William L. Jackson*
*Group Vice President,
Chesebrough-Pond's Inc.*

Robert H. Mann*
*Vice President, Secretary and
General Counsel,
Chesebrough-Pond's Inc.*

Alexander N. McFarlane**
*Honorary Chairman of the Board,
CPC International Inc.*

Jane C. Pfeiffer**
Management Consultant

Louis Russek
*Chairman of the Board,
Health-tex Inc.*

Ralph E. Ward*
*President and
Chief Executive Officer,
Chesebrough-Pond's Inc.*

Donald G. Wiesen*
*Group Vice President,
Chesebrough-Pond's Inc.*

*Member of Executive Committee
**Member of Audit Committee

Officers

Ralph E. Ward
*President and
Chief Executive Officer*

J. Edgar Bennett
Group Vice President

William L. Jackson
Group Vice President

Frank L. Stamberg
Group Vice President

Donald G. Wiesen
Group Vice President

Robert H. Mann
*Vice President, Secretary and
General Counsel*

Robert W. Bennett
Vice President

George W. Bieler
Vice President

Ward J. Haas
Vice President

Donald Heller
Vice President

Perry D. Lindholm
Vice President

George J. Luby†
Vice President

George A. McMoran
Vice President

J. Donald Powers
Treasurer

William F. Gilroy
Controller

†Elected, Feb. 18, 1976



Chesebrough-Pond's Worldwide

International Branches and Subsidiaries

Argentina, Buenos Aires*
Australia, Melbourne*
Bahamas, Nassau
Bermuda, Hamilton*
Brazil, Sao Paulo*
Canada, Markham*
Colombia, Bogota*
England, London*/Alfreton*
France, Paris/Pont de L'Arche*
Ghana, Accra
Guatemala, Guatemala City
Hong Kong
India, Madras
Indonesia, Jakarta*
Ireland, Dublin*
Italy, Milan*
Jamaica, Kingston
Japan, Tokyo*
Kenya, Nairobi*
Malawi, Blantyre*
Malaysia, Kuala Lumpur
Mexico, Cuernavaca*
Monaco, Monte Carlo*
New Zealand, Auckland
Nigeria, Apapa
Panama, Panama City*
Peru, Lima*
Philippines, Manila
Puerto Rico, San Juan
Rhodesia, Salisbury*
Singapore
South Africa, Germiston*
Spain, Madrid*
Switzerland, Geneva
Thailand, Bangkok
Trinidad, Port of Spain*
Uruguay, Montevideo*
Venezuela, Caracas*
West Germany, Munich/
Oberndorf-Am-Neckar*
Zambia, Lusaka*

*overseas plants

Domestic Plant Locations

Brunswick, Maine
Cabo Rojo, Puerto Rico
Central Falls, Rhode Island
Centreville, Alabama
Clinton, Connecticut
Cumberland, Rhode Island
Danville, Virginia
Gadsden, Alabama (2)
Gardiner, Maine
Guin, Alabama
Huntsville, Alabama
Jefferson City, Missouri
Las Piedras, Puerto Rico
Merced, California
North Hollywood, California
Norwood, New Jersey
Oriskany Falls, New York
Owensboro, Kentucky
Pawtucket, Rhode Island
Perth Amboy, New Jersey
Portland, Maine
Rochester, New York
Sherburne, New York
Watertown, New York

*In addition to maintaining
plants in 27 countries,
Chesebrough-Pond's uses
the facilities of manu-
facturing and selling
representatives in 50 other
important markets.*

*Chesebrough-Pond's
products are sold in
140 markets throughout
the world.*

Principal Products

Adolph's Food Specialties

*Amoha Shampoo
Aziza Eye Makeup
*Busy Girl Dry Shampoo
*Cottrino Cotton Swabs
Cutex Nail Polish, Lipstick and Polish Remover
*Durban's Toothpaste
Erno Laszlo Skin Care Preparations
Faichney, Apex and Ballo Thermometers
Groom & Clean Hair Products
Health-tex Children's Apparel
*Lord Cheseline Hair Dressing and Spray
*Louis Philippe Cosmetics
*Lysoform Cleanser/Disinfectant
Odorono Deodorant
*Peggy Sage Nail Polish and Lipsticks
Pertussin Cough and Cold Products
Pond's Angel Face Makeup
Pond's Beauty Creams and Lotion
Pond's Talc and Dusting Powder
Prince Matchabelli Aviance Fragrance
Prince Matchabelli Cachet Fragrance
Prince Matchabelli Wind Song Fragrance
Prince Matchabelli Golden Autumn Fragrance
Prince Matchabelli Prophecy Fragrance
Q-tips Cotton Swabs and Cotton Balls
Ragú Italian Cooking Sauce
Ragú Spaghetti Sauces
Royall Lyme Toiletries
*Tricofilina Shampoo
*Vaseline Balanced Care Shampoo
*Vaseline Hair Spray
Vaseline Hair Tonic
Vaseline Intensive Care Bath Beads
Vaseline Intensive Care Baby Products
Vaseline Intensive Care Lotion and Cream
Vaseline Intensive Care Wipe 'N Dipe Wipes
Vaseline Petroleum Jelly

*sold abroad only

